

Franchise Tax Board**ANALYSIS OF ORIGINAL BILL**

Author: Leno Analyst: William Koch Bill Number: SB 223
Related Bills: See Legislative History Telephone: 845-4372 Introduced Date: February 9, 2011
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Voter-Approved Local Vehicle License Fee/FTB & DMV Develop Reporting Process That Enables DMV To Report To FTB Data To Prepare Estimate Of Revenue Loss/FTB Report To DMV Amount Of Revenue Loss Incurred By The State Due To Deductibility Of Fee

SUMMARY

This bill would require the Franchise Tax Board (FTB) to report to the Department of Motor Vehicles (DMV) the estimated revenue loss as a result of deductions taken by residents of any county or the City and County of San Francisco that has passed a voter-approved local vehicle assessment.

This bill also contains provisions for the imposition of a voter-approved local assessment, which do not impact the FTB and are not discussed in this analysis.

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to give the voters of counties options to increase funding for public services.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2012, and would become operative as specified when a majority of residents of a county or the City and County of San Francisco approve an ordinance passed by the board of supervisors imposing the assessment. If the election in which the ordinance receives voter approval occurs between January 1 and June 30, the bill would be operative the following January 1. If the election in which the ordinance receives voter approval occurs between July 1 and December 31, the bill would be operative on the following July 1.

Board Position:	Executive Officer	Date
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ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, mortgage interest, and certain state or local taxes paid as itemized deductions. A vehicle license fee (VLF) imposed by a state or local entity is considered a personal property tax that can be deductible as an itemized deduction. For business entities, the VLF can be deducted as a business expense for vehicles used in the business.

THIS BILL

This bill would enact the Local Assessment Act, which would authorize any county, including the City and County of San Francisco, to impose, upon voter approval, a local assessment on specified vehicles of residents of the county. The county board of supervisors would be required to transmit a certified copy of the voter-approved ordinance to the FTB.

This bill would require that on or before January 1 of the second year after the assessment is imposed, the FTB must report to the DMV an estimate of the revenue loss to the state for the prior year resulting from deductions taken under the Personal Income Tax Law and the Corporation Tax Law for taxes paid or incurred as a result of the assessment. This bill would require the DMV and the FTB to coordinate a reporting process for the FTB to obtain this information from the DMV to assist the FTB in the calculation of the one-time estimate of revenue loss to the state from taxpayers deducting the additional fee on their income tax returns.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs or operations.

TECHNICAL CONSIDERATIONS

If the intent of the author is for the FTB to annually estimate the revenue loss to the state from taxpayers deducting the additional fee on their income tax returns, the bill should be amended as follows:

On page 5, line 35, after "part," insert "and annually thereafter,"

LEGISLATIVE HISTORY

SB 10 (Leno, 2009/2010) was similar to this bill. SB 10 failed to pass out of the Assembly.

AB 1590 (Leno, 2007/2008) carried similar provisions as this bill, but was limited to the City and County of San Francisco. This bill was held in the Senate Revenue and Taxation Committee.

AB 799 (Leno, 2005/2006) would have required the FTB to report the estimated amount of revenue loss to the state as a result of increased itemized deductions taken by residents of the County for a local VLF. This bill was vetoed by Governor Schwarzenegger who viewed it as an unfair burden on motorists.

AB 1208 (Yee, 2005/2006) would have imposed an additional VLF on the residents of the City and County of San Francisco for the purpose of funding maintenance and improvement of roads. This fee would have been a flat fee per registered vehicle. This bill was vetoed by Governor Schwarzenegger who indicated that he believed fees should only be added with voter approval.

AB 1187 (Leno, 2003/2004) would have permitted the City and County of San Francisco to impose, upon voter approval, a local vehicle license fee. AB 1187 failed passage out of the Assembly Appropriations Committee.

OTHER STATES' INFORMATION

The states reviewed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. No comparable statutes with respect to a local vehicle license fee in these states were found.

FISCAL IMPACT

The department's costs to implement this bill are expected to be minor.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of SB 223 Effective January 1, 2012 Enactment Assumed After June 30, 2011 (\$ in Millions)				
2011-12	2012-13	2013-14	2014-15	2015-16
No Impact	No Impact	-\$85	-\$50	-\$5.7

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

The above estimate assumes all counties, including the City and County of San Francisco, would begin imposing a local VLF on July 1, 2013. Based on this assumption, the proposed VLF would begin to be deducted on the 2013 income tax returns that are filed in 2014.

SUPPORT/OPPOSITION

According to the author's office:

Support: San Francisco Chamber of Commerce (sponsor)
 California State Association of Counties
 City and County of San Francisco
 San Francisco Labor Council

Opposition: Alliance of Automobile Manufacturers
Automobile Club of Southern California
California New Car Dealers Association
California State Automobile Association
CalTax

ARGUMENTS

Pro: Some people could say that placing the option to increase fees in the hands of local government allows the citizens to determine the priority and importance of local services that would be funded by the additional fees.

Con: Some people could say it is inequitable to assess fees on county residents when nonresidents use the roads and bridges that the fees may be designated to support.

LEGISLATIVE STAFF CONTACT

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